

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /098 W

-----111147Z 006784 /11

P R 111028Z FEB 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 9248

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 1968

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: NEW INDONESIAN PETROLEUM INCENTIVES

REF: JAKARTA 1479

1. SUMMARY: GOI HAS COMPLETED WORK ON NEW OIL EXPLORATION INCENTIVES. PERTAMINA PLANS OFFICIALLY NOTIFY INDUSTRY NEXT WEEK. NEW PACKAGE INCLUDES: VALUATION OF PRO-RATA, DOMESTIC CRUDE AT "REALIZED," I.E. MARKET PRICE; TWENTY PER-CENT INVESTMENT CREDIT FOR DEVELOPMENT NEW FIELDS; AND STANDARD SEVEN YEAR DEPRECIATION TERM FOR ALL CONTRACTORS. FIRST REACTION FROM INDUSTRY IS MIXED; ALTHOUGH COMPANIES WELCOME ANY CHANGE FROM CURRENT TERMS, SOME LARGER PRODUCERS FEEL IMPACT OF INCENTIVES ON BOTTOM LINE CASH FLOW IS NOT ENOUGH. END SUMMARY.

2. AS ANTICIPATED, GOI HAS COMPLETED WORK ON NEW PACKAGE OF ECONOMIC INCENTIVES INTENDED TO ENCOURAGE OIL COMPANIES EXPLORE FOR AND DEVELOP NEW SOURCES OF OIL. FOLLOWING
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COMPLETION OF FINAL DRAFT OF INCENTIVES (REFTEL) BY PERTAMINA'S FOREIGN CONTRACTORS OFFICE, SPECIAL INTRA-MINISTERIAL TEAM COMPRISED OF MINISTER TRADE RADIUS, BAPPENAS VICE CHAIRMAN SUMARLIN, MINES MINISTER SADLI AND PERTAMINA PRESIDENT HARYONO STUDIED PROPOSALS. GROUP (WHICH ACTED IN STEAD OF PERTAMINA BOARD OF DIRECTORS) COMPLETED FINAL REVIEW OF PERTAMINA PROPOSALS

IN LATE EVENING SESSION FEBRUARY 3. PACKAGE WAS THEN SUBMITTED TO PRESIDENT SUHARTO FOR APPROVAL AT SPECIAL MEETING FEBRUARY 5 AT PALACE.

3. ACCORDING TO PERTAMINA/MIGAS SOURCES WHO ATTENDED ABOVE SESSION, FINAL PACKAGE CONTAINS THREE MAIN COMPONENTS AS MENTIONED PARA THREE REFTEL (PERTAMINA HAS ASKED THAT WE HOLD THIS INFORMATION CLOSELY, PENDING OFFICIAL NOTIFICATION OF COMPANIES NEXT WEEK):

A) FIRST OF THESE INVOLVES CHANGE IN VALUATION OF DOMESTIC, PRO RATA CRUDE. ALL PRO RATA OIL SUPPLIED BY CONTRACTOR TO PERTAMINA WILL BE VALUED AT "REALIZED" OR ACTUAL MARKET PRICE RATHER THAN ON PREVIOUS COST PLUS \$.20/BARREL FEE ARRANGEMENT. THIS INCENTIVE WILL APPLY TO NEW PRODUCTION ON FIVE YEAR BASIS. PAYMENTS BY PERTAMINA TO COMPANIES WILL BE BASED ON UNDERSTANDING THAT COMPANIES MUST USE PROCEEDS FOR REINVESTMENT ON ADDITIONAL EXPLORATION OR PRODUCTION ACTIVITIES IN SAME FIELD. IN EFFECT, THIS CHANGE AMOUNTS TO WAIVING OF PRO RATA OBLIGATION;

B) SECOND INCENTIVE IS NEW TWENTY PERCENT "UP-LIFT" INVESTMENT CREDIT. COMPANIES WILL BE ALLOWED TO TAKE EQUIVALENT DEDUCTION OR CREDIT OUT OF GROSS PRODUCTION, I.E. 200 BARRELS OUT OF 1000 BARRELS GROSS PRODUCTION, FOR CAPITAL INVESTMENTS REQUIRED FOR DEVELOPMENT OF NEW FIELDS IN DIFFICULT AREAS. CREDIT WILL BE GIVEN FOR FIRST YEAR OF PRODUCTION ONLY.

--PERTAMINA DEFINES "DIFFICULT AREAS" AS FOLLOWS:
THOSE PORTIONS OF CONTRACT AREAS WHICH ARE MORE THAN
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THIRTY MILES FROM COAST OR NEAREST OIL OUTLET. OFFSHORE DIFFICULT AREAS ARE THOSE WITH WATER DEPTHS MORE THAN 300 FEET. PERTAMINA ADVISES THAT YARDSTICK IS FLEXIBLE IN DEFINITION OF LATTER AND THAT CASE-BY-CASE APPROACH COULD PREVAIL.

--NEW CREDIT WILL NOT BE APPLICABLE FOR "INTERIM PRODUCTION DEVELOPMENT SCHEMES." THAT IS, SPENDING MUST BE SEPARATE PROGRAM FOR DEVELOPMENT NEW FIELD, NOT SIMPLE EXTENSION OR PARTIAL DEVELOPMENT.

--CONTRACTOR CAN RETAIN FULL TWENTY PERCENT CREDIT ONLY IF GOI/PERTAMINA HAVE EQUITY PRODUCTION SHARE NOT LESS THAN 49 PERCENT, I.E. NOT LESS THAN 65 PERCENT NET, "EFFECTIVE" SPLIT ON PRODUCTION-SHARING BASIS. THIS PROVIDES GUARANTEE THAT PERTAMINA WILL NOT BE WORSE OFF THAN BEFORE NEW TERMS WERE ESTABLISHED. PERTAMINA DESCRIBES THIS SLIDING SCALE AS TYPE OF MINIMUM GUARANTEE, NECESSARY FOR POLITICAL PURPOSES. HENCE, NEW INVESTMENT CREDIT IS FLEXIBLE AND WILL DEPEND ON EACH CONTRACTOR'S CAPITAL SPENDING POSITION.

--INVESTMENT CREDIT APPLIES TO INVESTMENTS MADE
FOR SECONDARY AND TERTIARY RECOVERY ONLY IF SUCH PRO-
GRAMS ARE MADE ON FULL SCALE (READ FULL FIELD OR
RESERVOIR) BASIS;
C) FINAL INCENTIVE IS RECLASSIFICATION OF ALL
CONTRACTORS INTO SEVEN YEAR DEPRECIATION SCHEDULE
USING DOUBLE DECLINING BALANCE METHOD AS BEFORE.

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C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 1968

E.O. 11652: GDS
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4. ACCORDING TO MINES MINISTER SADLI, TERMS RESULT
IN 78/22 PROFIT SHARING SPLIT FIRST YEAR OF FIVE YEAR
PERIOD, 85/15 SPLIT FOR YEARS TWO THROUGH FIVE, AND
89/11 FOR ALL SUCCEEDING YEARS. SADLI SAID THIS WOULD
RESULT IN \$.45/BARREL SHIFT FOR COMPANIES DURING FIRST
FIVE YEARS. (PERTAMINA D VISES THEY ARE RECHECKING
THIS FIGURE.) IN CONVERSATION WITH AMBASSADOR FEB.7,
SADLI IMPLIED NEW TERMS WERE BEING EXTENDED ON "TAKE IT
OR LEAVE IT BASIS." SADLI SAID COMPANIES COULD DISCUSS
"MINOR"DIFFERENCES (NOT FURTHER DEFINED). IF COMPANIES
ARE NOT PREPARED TO ACCEPT INCENTIVES PACKAGE WITH
ONLY MINOR ADJUSTMENTS, GOI WOULD SIMPLY HAVE TO LIVE
WITH IT; NO FURTHER ACCOMMODATION WAS LIKELY. SADLI
SAID BOTH AGIP AND PHILLIPS ARE PREPARED TO SIGN UP ON

BASIS NEW ARRANGEMENTS. CHECK WITH LATTER COMPANY IN-
DICATES SOME DIFFERENCE OF OPINION SINCE COMPANY HAS
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NOT YET BEEN APPROACHED BY PERTAMINA ON THESE MOST
RECENT CONTRACT CHANGES.

5. PERTAMINA EXPECTS TO START CALLING IN COMPANIES
NEXT WEEK TO DISCUSS IMPLEMENTATION NEW TERMS. LETTER
CONTAINING NEW INCENTIVES PACKAGE CURRENTLY BEING DRAFTED
(INCORPORATING ABOVE POINTS) AND WILL BE SENT TO ALL
COMPANIES AS OFFICIAL NOTIFICATION. PERTAMINA'S HARYONO
HAS ORDERS COMPLETE DISCUSSIONS AND OBTAIN COMPANY
AGREEMENT BY END OF MARCH. COMPANIES WILL PROBABLY
SIGN SEPARATE LETTERS OF AGREEMENT WHICH WILL BE MADE
PART THIER ORIGINAL PRODUCTION-SHARING CONTRACT.

6. INITIAL CONTACTS WITH COMPANIES PRODUCED MIXED BAG
OF RACTIONS. (COMPANIES ARE MIFFED BY FACT THAT THEY
HAVE NOT YET BEEN OFFICIALLY NOTIFIED BY PERTAMINA.
MOST GOT NEWS VIA TELEX FROM HOME OFFICES WHO READ IT IN RECENT
WALL STREET JOURNAL. ARTICLE WAS RELEASED BY SADLI TO
LOCAL WSJ CORRESPONDENT AS KIND OF TRIAL BALLOON, AP-
ARENTLY DESIGNED TO TEST COMPANY REACTIONS.) SMALLER

OR NEWER COMPANIES OPERATING IN INDONESIA WELCOME PRO-
POSALS, PARTICULARLY RELIEF ON PRO RATA OBLIGATION.
THIS GROUP ALSO FEELS SEVEN YEAR STANDARD DEPRECIATION
SCHEDULE WILL HELP THEM IN DEVELOPING NEW FIELDS. LARGER,
ESTABLISHED PRODUCERS WELCOME ANY CHANGE FROM CURRENT
TERMS BUT THEY FEEL PACKAGE DOES LITTLE IN WAY OF
CHANGING FINAL BOTTOM LINE, CASH FLOW POSITION. COM-
PANIES MIIDWAY THROUGH DEVELOPMENT PROGRAMS--WHO HAVE
WITNESSED THREE FORMS OF CONTRACT REVISIONS IN PAST
THREE YEARS--SEE LITTLE RELIEF. THIS INCLUDES COMMPANIES
LIKE MOBIL WHICH HAS ALREADY PLOUGHED LARGE AMOUNTS OF
CAPITAL IN DEVELOPMENT ITS ARUN GAS FIELD PRIOR TO ANY
PRODUCTION. THIS REACTION MAY BE SOFTENED SOMEWHAT AS
COMPANIES "RUN THE NUMBERS" ON NEW TERMS AND AS COMPANIES
REALIZE THIS IS BEST OFFER THEY ARE LIKELY TO RECEIVE
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FROM GOI. PERTAMINA FEELS NEW PACKAGE OFFERS BETTER
DEAL THAN COMPANIES ARE GETTING WITH MALAYSIAN CONTRACTS.
REAL DETERMINANTS IN THIS EXERCISE WILL PROBABLY BE DE-
MAND FOR PETROLEUM (ALL COMPANIES CURRENTLY

EXPERIENCING GOOD OFFTAKE RATES)
AND HOME OFFICER PERCEPTION OF GOI INVESTMENT
CLIMATE WHICH, UNFORTUNATELY, IS PROBABLY SHAPED AS
MUCH BY NEW YORK TIMES AND OTHER STORIES AS BY THESE NEW
CONTRACT INCENTIVES.
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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